

DE-030-65

16 March 1965

## MEMORANDUM FOR THE RECORD

SUBJECT: Negotiations leading to settlement of Contracts  
BT-1943 and IK-4666 with ITEK Corporation

1. The undersigned Contracting Officer met with [redacted] Agency Assigned Auditor at ITEK, and [redacted] Head of the Audit Group for OSA, to consider proposals made by the ITEK Corporation for settlement of the two contracts which had been terminated in October 1963. At that time Contract IK-4666 was terminated in its entirety and BT-1943 was partially terminated. All work was finally completed in March of 1964.

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2. The Contractor submitted a paper on 15 July 1964 setting forth its detailed proposal for determination of per cent of completion and derivation of incentive fee for both contracts. The technical aspects of the proposal relating to the per cent of completion were reviewed by [redacted] (SAFSP) who found the completion percentage stated by the Contractor to be a reasonable representation of the facts existing on the date of termination. Audits were conducted (See Attachment) on the Contractor's records by [redacted] at Boston, and in the case of the [redacted] subcontract, audit was performed by [redacted] in Palo Alto. Both auditors took certain exceptions. Government owned property was handled during the course of the work by [redacted] the Agency Property Representative from [redacted] Mr. [redacted] also took part in termination meetings at ITEK involving disposition of all residual inventory. [redacted] has provided statements for the record indicating that all Government owned property has been disposed of in the best interests of the Government.

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3. [redacted] basic exception concerned the application by ITEK of full burden to termination expense. [redacted] relying upon an opinion developed in another case by the Boston Air Procurement District Auditor, felt that upon termination, the nature of the work to be completed in termination proceedings was much different than that occurring during the performance of the contract. As a result of this opinion [redacted] felt that termination expenses should bear overhead rates of approximately [redacted] overhead and [redacted] G&A which would cover essential fringe benefits. The Contracting Officer and Mr. [redacted] supported this view. Basically this viewpoint proceeds on the fact that during the course of the work the Contractor may be

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called upon to utilize his entire facility. For example, he employs his machine shop, tool room, receiving and inspection and numerous other elements of his organization. Upon termination of the contract the Contractor is then obligated to stop all work and proceed toward disposition of inventory, etc. This is primarily a question of checking residual property, preparing IBM Lists, etc. and involves a very limited effort on the part of the Contractor. It is for this reason that the opinion is held that the Contractor is not entitled to full burden on termination expenses.

4. The Contractor's final claim for Contract BT-1943 was as follows:

<u>Contract No. BT-1943</u>	25X1A	<u>Costs</u>	<u>Fee</u>	<u>Total</u>
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Contractor's submission

The amount finally negotiated for Contract BT-1943 was as follows:

Amount Negotiated 25X1A

5. The Contractor's final claim for Contract IK-4666 was as follows:

<u>Contract No. IK-4666</u>	25X1A	<u>Costs</u>	<u>Fee</u>	<u>Total</u>
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Contractor's submission

The amount finally negotiated for Contract IK-4666 was as follows:

Amount Negotiated 25X1A

6. It should be recognized that under a CPIF type contract the Contractor's fee is increased by  for each dollar by which the final allowable costs underrun the target cost.

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7. The Contractor has accepted the offer of the Government as indicated in the negotiated figures in the preceding paragraph. All necessary documents in support of final settlement for Contracts BT-1943 and IK-4666 with ITEK Corporation have been accumulated in a termination package which is being transmitted to Headquarters for final payment.

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Contracting Officer